

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004****NOTE 10 – RISK MANAGEMENT**

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term debt. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2004, is \$46,766,049.

The County purchases excess liability coverage that currently provides \$97.5 million in limits above a \$2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The County must pay an additional \$1 million SIR either from a single large loss or a combination of losses above the \$2.5 million deductible. Effective June 1, 2004, the County renewed the property insurance policy. This policy has a blanket limit of \$1 billion above a \$100,000 per occurrence deductible and provides an overall earthquake sublimit of \$220 million. The previous policy had a blanket limit of \$700 million. The 2004 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to \$250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a liability policy to cover the police helicopter activities with liability limits of \$50 million per occurrence; and excess statutory coverage for the Workers' Compensation program over a \$2.5 million per occurrence SIR.

In the past three years, one occurrence has resulted in payments in excess of the self-insured retention of \$2.5 million. There has been one settlement in excess of the insurance coverage in the prior three years.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 10 – CONTINUED

During 2004 there were some significant changes made in the County's insurance program. Effective May 1, 2004, the County selected a new insurance broker. In order to better assist the County agencies in the budget process, Risk Management has targeted April and October for the largest policy renewals. Renewing policies earlier in the year will allow better insurance cost projections for participating agencies to utilize their budgets. To maximize this opportunity, the County purchased many extended period policies of up to 18 months to effectively move renewal dates.

In 2004 the County experienced a significant decrease in premiums for excess liability insurance from \$4.563 million to \$3.641 million (on an annualized basis) for \$97.5 million in limits. The substantial decrease in premiums is attributable to increased stability in the insurance marketplace and reinsurance markets.

The County has also extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of \$25 million in excess of \$5 million with additional coverage for sudden and accidental pollution, maritime employers liability, towers liability, and contingent charterers liability.

The County has increased funding for the self-insurance program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from \$2.1 million at December 31, 1985, to more than \$72 million at December 31, 2004. \$12.4 million of the \$72 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 15, "Restriction, Reserves, Designations, and Changes in Equity"). The catastrophic loss reserves are used to respond to large losses above the \$1 million limit.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's claims liability in 2003 and 2004 were as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2003	\$ 43,247,000	\$ 9,391,258	\$ (10,940,277)	\$ 41,697,981
2004	41,697,981	20,544,039	(15,475,971)	46,766,049

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 10 – CONTINUED

self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 5.0 percent, the County's average forecasted rate of return on investments. At December 31, 2004, the total discounted claim liability is \$49,246,934 and the undiscounted carrying amount of the claim liability is \$60,755,540.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was decreased from \$5 million to \$2.5 million. There has been one settlement in excess of the insurance coverage in the prior three years.

Beginning in 2004, the Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. Prior to 2004, the Fund's claim liability was estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. The estimated claim liability was not discounted prior to 2004. Changes in the Safety and Workers' Compensation Fund's claims liability in 2003 and 2004 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2003	\$ 15,970,000	\$ 16,772,556	\$ (15,954,326)	\$ 16,788,230
2004	16,788,230	50,444,146	(17,985,442)	49,246,934

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are five insured and two self-insured medical plans. Seventy-eight percent of County employees are insured through the two self-insured medical plans. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2004, is \$13,055,000.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2003 and 2004 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2003	\$ 11,127,133	\$ 90,965,941	\$ (88,901,074)	\$ 13,192,000
2004	13,192,000	100,563,501	(100,700,501)	13,055,000

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 10 – CONTINUED**Unemployment Liability**

The County has elected to retain the risk for unemployment compensation payable to former county employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of \$1,758,000 is recorded in governmental long-term debt for the estimated future claims liability for employees as of December 31, 2004.

Changes in governmental long-term debt liability for unemployment compensation in 2003 and 2004 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2003	\$ 1,531,615	\$ 3,484,358	\$ (2,740,973)	\$ 2,275,000
2004	2,275,000	1,601,306	(2,118,306)	1,758,000

Component Unit – Harborview Medical Center**Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2004, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy, with respect to its self-insurance programs, is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund was approximately \$1,227,665 in the period July 1, 2002 to June 30, 2003, and \$1,285,430 in the period July 1, 2003 to June 30, 2004.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees' Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensations for

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 10 – CONTINUED

permanent partial and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

Component Unit – WSMILBS Public Facilities District

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100,000 with separate overages for earthquake and flood losses.

The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA), dba 4Culture, carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$103,000.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

Employee Benefits Program

Employees of the CDA have a comprehensive benefits package through the Public Employees' Benefits Board (PEBB). The comprehensive package includes medical, dental, life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administering authority. The CDA also offers the insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies.